

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Cadillac-Wexford Public Library	County Wexford
Fiscal Year End 12/31/2006	Opinion Date 1/26/2007	Date Audit Report Submitted to State 3-29-07	

We affirm that:

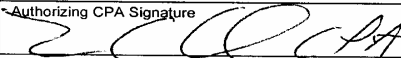
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, PC		Telephone Number 231-775-9789	
Street Address 134 West Harris Street		City Cadillac	State MI
Authorizing CPA Signature 		Printed Name Michael D. Cool, C.P.A.	Zip 49601
		License Number 1101023146	

CADILLAC-WEXFORD PUBLIC LIBRARY

(A Component Unit of Wexford County)
REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

YEAR ENDED DECEMBER 31, 2006

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)
CADILLAC, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2006

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-6
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	7
Statement of Activities	8
Fund Financial Statements	
Balance Sheet - General Fund	9
Reconciliation of Balance Sheet of General Fund to Net Assets	10
Statement of Revenues, Expenditures and Changes in Fund Balance - General Fund	11-12
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balance of General Fund to the Statement of Activities	13
Notes to Financial Statements	14-23
Required Supplementary Information	
Budgetary Comparison Schedule - General Fund	24

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601
PHONE: 231-775-9789 FAX: 231-775-9749
www.bcbcpa.com

January 26, 2007

INDEPENDENT AUDITORS' REPORT

To The Members of the Board
Cadillac-Wexford Public Library
(A Component Unit of Wexford County)
Cadillac, Michigan

We have audited the accompanying financial statements of Cadillac-Wexford Public Library, Cadillac, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the Library's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Cadillac-Wexford Public Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Cadillac-Wexford Public Library as of December 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2-6 and budgetary comparison information on page 24 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2006

Cadillac-Wexford Public Library, a Public Library located in Wexford County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Cadillac-Wexford Public Library's administration's discussion and analysis of the financial results for the fiscal year ended December 31, 2006, along with specific comparative information as required.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: Fund financial statements and government-wide financial statements.

A. Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

B. Government-wide Financial Statements

The government-wide financial statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Library's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

C. Summary of Net Assets

The following schedule summarizes the net assets at December 31:

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2006

	2006	2005
Assets		
Current Assets	\$ 1,043,499	\$ 1,152,980
Non Current Assets		
Capital Assets	2,874,705	2,604,291
Less Accumulated Depreciation	(2,156,501)	(2,066,050)
Total Non Current Assets	718,204	538,241
Total Assets	1,761,703	1,691,221
Liabilities		
Current Liabilities	45,698	45,786
Non Current Liabilities	65,414	81,103
Total Liabilities	111,112	126,889
Net Assets		
Invested in Capital Assets Net of Related Debt	697,125	496,104
Restricted for Tustin Public Library	18,025	15,053
Unrestricted	935,441	1,053,175
Total Net Assets	\$ 1,650,591	\$ 1,564,332

D. Analysis of Financial Position

During the fiscal year ended December 31, 2006, the Library's net assets increased by \$86,259. A few of the more significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

GASB 34 requires Libraries to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended December 31, 2006, \$179,654 was recorded for depreciation expense.

2. Capitalized Acquisitions

For the fiscal year ended December 31, 2006, \$372,010 of expenditures were capitalized and recorded as assets of the Library. These additions to the Library's capital assets will be depreciated over time as explained above.

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2006

The net effect of the new capital assets, current year disposals and the current year's depreciation is an increase to capital assets in the amount of \$179,963 for the fiscal year ended December 31, 2006.

E. Results of Operations

For the fiscal years ended December 31, the results of operations were:

	<u>2006</u>	<u>2005</u>
General Revenues		
Property Taxes	\$ 643,698	\$ 600,514
Interest	26,102	17,989
State Sources	291,408	279,129
Gain (Loss) on Disposal of Capital Assets	(5,083)	(4,781)
Other	<u>29,343</u>	<u>33,793</u>
Total General Revenues	<u>985,468</u>	<u>926,644</u>
Program Revenues		
Charges for Services	3,965	3,710
Operating Grants	<u>23,300</u>	<u>9,000</u>
Total Program Revenues	<u>27,265</u>	<u>12,710</u>
Total Revenues	<u>1,012,733</u>	<u>939,354</u>
Expenses		
General Government	<u>926,474</u>	<u>906,410</u>
Change in Net Assets	<u><u>\$ 86,259</u></u>	<u><u>\$ 32,944</u></u>

F. Analysis of Significant Revenues and Expenses

Significant revenues and expenses are discussed in the segments below:

1. Property Taxes

The Library levies .6805 mills of property taxes for operations.

For 2006, the Library recognized \$ 643,698 of property tax revenue.

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2006

2. State Sources

The majority of the state sources is comprised of penal fines received from Wexford and Osceola Counties. The Library collected \$262,919 in penal fines for 2006.

3. Operating Grants

The Library funds a portion of its operations with grants. For the fiscal year ended December 31, 2006, state and other grants accounted for \$51,789.

G. General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the Board approve the original budget for the upcoming fiscal year prior to its starting on January 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the year on December 31.

For 2006, the Library amended the general fund budget in April, June and December 2006. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	Original Budget	Final Budget	Actual	Variance With Final Budget
Total Revenues	\$ 892,200	\$ 892,200	\$ 994,404	\$102,204
Total Expenditures	892,200	1,194,200	1,134,498	59,702
Total	\$ 0	\$ (302,000)	\$ (140,094)	\$161,906

There was no variance in the Total Revenues Original Budget to Final Budget. The variance in the Total Expenditures Original Budget to Final Budget was an increase of \$302,000.

H. Capital Assets

At December 31, 2006, the Library had \$2,874,705 in capital assets, including leasehold improvements and equipment, furniture and fixtures, as well as books. Depreciation expense for the year amounted to \$179,654 bringing the accumulated depreciation to \$2,156,501 as of December 31, 2006.

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2006

I. Factors Bearing on the Library's Future

At the time that these financial statements were prepared and audited, the Library was aware of the following items that could significantly affect its financial health in the future:

A significant portion of the Library's funding comes from property taxes and penal fines, any impairment to these funding sources would greatly impact the future of the Library.

J. Contacting the Library's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report, please contact the Cadillac-Wexford Public Library, 411 S Lake Street, Cadillac, Michigan 49601.

CADILLAC WEXFORD PUBLIC LIBRARY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

STATEMENT OF NET ASSETS

DECEMBER 31, 2006

ASSETS

CURRENT ASSETS

Cash	\$ 373,393
Receivables	
Accounts	5,683
Taxes	645,905
Prepaid Expenses	18,518
Total Current Assets	<u>1,043,499</u>

NON CURRENT ASSETS

Capital Assets	2,874,705
Less Accumulated Depreciation	<u>(2,156,501)</u>
Total Non Current Assets	<u>718,204</u>
TOTAL ASSETS	<u>1,761,703</u>

LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	3,392
Accrued Wages	17,727
Deferred Revenue - Unearned	3,500
Current Portion of Non - Current Liabilities	<u>21,079</u>
Total Current Liabilities	<u>45,698</u>

NON CURRENT LIABILITIES

Compensated Absences	65,414
Capital Lease Payable	21,079
Less: Current Portion	<u>(21,079)</u>
Total Non Current Liabilities	<u>65,414</u>

Total Liabilities	<u>111,112</u>
-------------------	----------------

NET ASSETS

Invested in Capital Assets Net of Related Debt	697,125
Restricted For Tustin Public Library	18,025
Unrestricted	<u>935,441</u>
Total Net Assets	<u>\$ 1,650,591</u>

The notes to the financial statements are an integral part of this statement.

CADILLAC WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)
CADILLAC, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		GOVERNMENTAL
		CHARGES FOR		ACTIVITIES
		SERVICES	GRANTS	NET (EXPENSES)
				REVENUES AND
				CHANGES IN
				NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>				
General Government	\$ 926,474	\$ 3,965	\$ 23,300	\$ (899,209)
<u>GENERAL REVENUES</u>				
Property Taxes				643,698
Interest				26,102
State Sources				291,408
Gain (Loss) on Disposal of Capital Assets				(5,083)
Other				29,343
Total General Revenues				985,468
Change in Net Assets				86,259
<u>NET ASSETS</u> - Beginning of Year				1,564,332
<u>NET ASSETS</u> - End of Year				\$ 1,650,591

The notes to the financial statements are an integral part of this statement.

CADILLAC-WEXFORD PUBLIC LIBRARY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

GENERAL FUND

BALANCE SHEET

DECEMBER 31, 2006

ASSETS

Cash	\$	373,393
Receivables		
Accounts		5,683
Taxes		645,905
Prepaid Expenses		18,518
		<hr/>
TOTAL ASSETS	\$	1,043,499
		<hr/>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$	3,392
Accrued Wages		17,727
Deferred Revenue		649,405
		<hr/>
Total Liabilities		670,524
		<hr/>

FUND BALANCE

Reserved for Tustin Public Library:		18,025
Unreserved		
Designated for:		
Sick and Vacation		52,000
Improvements and Expansion		50,000
Equipment Upgrades		20,000
Undesignated		232,950
		<hr/>
Total Fund Balance		372,975
		<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$	1,043,499
		<hr/>

The notes to the financial statements are an integral part of this statement.

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)
CADILLAC, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GENERAL FUND TO NET ASSETS

DECEMBER 31, 2006

Total General Fund Balance		\$ 372,975
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds		
The cost of the capital assets is	2,874,705	
Accumulated depreciation is	<u>(2,156,501)</u>	718,204
Other assets are not available to pay for current period expenditures and therefore are not reported in the funds		
Taxes Receivable		645,905
Long term liabilities are not due and payable in the current period and are not reported in the funds		
Capital Lease Payable		(21,079)
Compensated Absences		<u>(65,414)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 1,650,591</u></u>

The notes to the financial statements are an integral part of this statement.

CADILLAC-WEXFORD PUBLIC LIBRARY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GENERAL FUND

YEAR ENDED DECEMBER 31, 2006

REVENUES

Taxes

Wexford County

Current Property Tax \$ 575,232

Industrial Facilities Tax 7,789

Osceola County

Current Property Tax 29,955

State Sources

Library State Aid

28,489

Library Penal Fines

Wexford County

246,107

Osceola County

16,812

Charges for Services

Copy Machine Receipts

3,965

Fines and Forfeits

Library Book Fines

9,988

Interest and Rents

Interest

26,102

Other Revenues

American Library Association Grant

4,000

Cadillac Community Foundation Grant

4,000

Gates Foundation Grant

5,300

Meijer Grant

10,000

Contributions and Donations from Private Sources

3,920

LDFA Refund

7,200

Refunds and Rebates

5,932

Miscellaneous

9,613

Total Revenues

994,404

EXPENDITURES

Culture and Recreation

Personal Services

Salaries and Wages

Tustin Library

26,183

Cadillac-Wexford Public Library

398,617

Employee Benefits

Payroll Taxes

Tustin Library

1,990

Cadillac-Wexford Public Library

31,065

The notes to the financial statements are an integral part of this statement.

CADILLAC-WEXFORD PUBLIC LIBRARY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GENERAL FUND

YEAR ENDED DECEMBER 31, 2006

Fringe Benefits	
Tustin Library	7,810
Cadillac-Wexford Public Library	72,849
Supplies	
Tustin Library	1,100
Cadillac-Wexford Public Library	21,969
Other Services and Charges	
Audit	4,145
Data Processing	5,670
Consulting Services	24,000
Insurance	
Cadillac-Wexford Public Library	7,886
Telephone	
Tustin Library	479
Cadillac-Wexford Public Library	12,346
Board of Directors	1,201
Travel and Education	2,721
Public Relations	2,883
Dues, Publications, and Fees	1,387
Utilities	24,941
Repair and Maintenance	
Tustin Library	587
Cadillac-Wexford Public Library	20,797
Rental Expense	27,489
State Aid - Membership	11,844
Computer Software	3,944
Miscellaneous Expense	1,045
Capital Outlay	
Lease Hold Improvements and Equipment	
Tustin Library	80
Cadillac-Wexford Public Library	317,500
Books	
Tustin Library	5,566
Cadillac-Wexford Public Library	96,404
Total Expenditures	<u>1,134,498</u>
Excess (Deficiency) of Revenues Over Expenditures	(140,094)
<u>FUND BALANCE</u> - Beginning of Year	<u>513,069</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 372,975</u>

The notes to the financial statements are an integral part of this statement.

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)
CADILLAC, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF THE GENERAL FUND TO THE STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2006

Net change in General Fund Balance	\$ (140,094)
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(179,654)
Capital Outlay	372,010
Repayments of principal on long term debt is an expenditure in the general fund, but not in the statement of activities (where it is a reduction of liabilities).	
	21,058
In the statement of activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increases financial resources. The change in net assets differs from the change in fund balance by the cost of the capital assets sold net of accumulated depreciation.	
	(12,393)
Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:	
Taxes Included in Deferred Revenue - Beginning of Year	(615,183)
Taxes Included in Deferred Revenue - End of Year	645,905
Compensated Absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental	
Compensated Absences - Beginning of Year	60,024
Compensated Absences - End of Year	(65,414)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 86,259</u>

The notes to the financial statements are an integral part of this statement.

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Cadillac-Wexford Public Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

A. Reporting Entity

The Cadillac-Wexford Public Library provides library services to the Wexford County area from its facilities located in Cadillac. The Library is also responsible for operating the Tustin and Mesick Libraries, along with providing salaries and fringe benefits to the Manton and Buckley Libraries. The Library board consists of eleven members, five of whom are appointed by the City of Cadillac and six who are appointed by Wexford County. As such, the Library is considered to be a component unit of Wexford County.

B. Government-wide and Fund Financial Statements

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially responsible.

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Library as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Library are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

All other revenue items are considered to be measurable and available only when cash is received by the Library.

Governmental funds include the following fund type:

The General Fund is the primary operating fund of the Library. It is used to account for all financial resources of the Library.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Library is limited to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

- i. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- ii. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution.
- iii. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- iv. Repurchase agreements consisting of instruments listed in (i).
- v. Banker's acceptances of United States banks.
- vi. Obligations of this state or any of its political subdivisions that at the time of purchase are rated investment grade by not less than one standard rating service.
- vii. Mutual funds registered under the Investment Company Act of 1940, title I of chapter 686, 54 Stat. 789 15 U.S.C. 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by the Library. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share.
- viii. Investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.512.
- ix. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.118.

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

2. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Books	7 years
Furniture and Fixtures	10 years
Equipment	5 years
Leasehold Improvements	20 years

The Library's policy is to capitalize all books plus individual amounts exceeding \$500 for computer equipment and \$1,000 for all other items.

3. Compensated Absences

It is the Library's policy to permit employees to accumulate earned but unused sick pay benefits. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

6. Fund Balance

In the financial statements, the unreserved fund balance for governmental funds represent the amount available for budgeting future operations. Reservations of fund balance are for amounts

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Director of the Library annually prepares an operating budget taking into consideration the recommendations of the board. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is approved by the Library board prior to the start of the fiscal year which it covers.
3. All transfers of budget amounts above a certain preauthorized limit between accounts within the General Fund must be approved by the Library board.
4. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the Library board. Three budget amendments were made during the year.
5. Budget appropriations lapse at the end of the fiscal year.
6. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Library because, at present, it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

III. DETAILED NOTES ON GENERAL FUND

A. Deposits and Investments

The Library's deposits are on deposit with Fifth Third Bank, Citizens Bank and Firstbank.

Investment rate risk. The Library will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Library's cash requirement.

Foreign currency risk. The Library is not authorized to invest in investments, which have this type of risk.

Credit risk. The Library will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Library's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Library will do business in accordance with the Library's investment policy.

Concentration of credit risk. The Library will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of December 31, 2006, \$182,470 of the library's bank balance of \$384,419 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year end, the Library held no investments.

B. Capital Assets

A summary of changes in the Library's capital assets follows:

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

	Beginning Balance			Ending Balance
	January 1, 2006	Additions	Deletions	December 31, 2006
Capital assets:				
Books	\$ 2,200,475	\$ 55,986	\$ 34,781	\$ 2,221,680
Furniture and Fixtures	206,640	190,296	13,450	383,486
Equipment	195,590	6,725	53,365	148,950
Leasehold Improvements	1,586	119,003	0	120,589
Subtotal	\$ 2,604,291	\$ 372,010	\$ 101,596	\$ 2,874,705
Accumulated Depreciation	(2,066,050)	(179,654)	(89,203)	(2,156,501)
Net Capital Assets	\$ 538,241	\$ 192,356	\$ 12,393	\$ 718,204

Depreciation for the fiscal year ended December 31, 2006 amounted to \$179,654.

C. Property Taxes and Deferred Revenue

The Library receives revenue from a countywide library millage on the December tax roll. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended December 31, 2006, the Library levied the following amount per \$1,000 of taxable valuation.

<u>PURPOSE</u>	<u>MILLS</u>
Operating	\$.6805/\$1,000

Substantially all of the taxes raised by this millage are not received by the Library until the following year, therefore, those taxes are deferred until the following year.

D. Debt

A summary of the Debt transactions for the Library for the year ended December 31, 2006, is as follows:

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

	CAPITAL LEASE	COMPENSATED ABSENCES
Debt at January 1, 2006	\$ 42,137	\$ 60,024
New Liabilities	0	5,390
Liabilities Retired	(21,058)	0
Total Debt	21,079	65,414
Less Amounts Classified as Current	(21,079)	0
Long-Term Debt at December 31, 2006	<u>\$ 0</u>	<u>\$ 65,414</u>

At December 31, 2006, the Library's Debt consisted of the following:

Capital Lease Payable - Due in monthly installments of \$2,018 through November 2007, interest rate 10.43%	\$ 21,079
Compensated Absences	<u>65,414</u>
TOTAL DEBT	<u>\$ 86,493</u>

The annual requirement to amortize all debt outstanding as of December 31, 2007, including interest payments of \$1,115 are as follows:

<u>Year Ending December 31,</u> 2007	<u>Principal</u>	<u>Interest</u>	<u>Amounts Payable</u>
	\$ 21,079	\$ 1,115	\$ 22,194
Less: Interest			<u>1,115</u> 21,079
Compensated Absences			<u>65,414</u>
TOTAL DEBT			<u>\$ 86,493</u>

The annual requirement to amortize the accrued compensated absences is uncertain because it is unknown when the employees will use the leave.

E. Compensated Absences Liability

Employees of the Library are entitled to paid vacation and paid sick days depending on job classification, length of service and other factors. At December 31, 2006, the accrued expense for compensated absences was \$65,414.

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

F. Fund Balance Reserved and Designated

Fund Balance Reserved for Tustin accounts for the portion of fund balance created by Tustin Library related revenues in excess of expenditures.

IV. OTHER INFORMATION

A. Building Leases

The building in which the Library is located is owned by the City of Cadillac. The City leases the building to the Library at a cost of \$1 a year. The Mesick facility is located in a building owned by the Village of Mesick and is leased at a cost of \$1 a year. The Manton facility is located in a building owned by the City of Manton and is leased at a cost of \$1 a year.

B. Equipment Leases

Capital Lease - The Library has entered into one lease agreement as lessee for financing the acquisition of computer equipment. A \$1 purchase option exists at the end of the lease. This lease qualifies as a capital lease for accounting purposes.

The future minimum lease obligations of these minimum lease payments as of December 31, 2006 are as follows:

Year Ending December 31,

2007	\$ 22,194
------	-----------

Computer equipment and related accumulated depreciation under capital leases are as follows:

	<u>Governmental Activities</u>
Asset:	
Equipment	\$ 66,627
Less: accumulated depreciation	<u>(17,381)</u>
Total	<u><u>\$ 49,246</u></u>

Depreciation of leased equipment under capital assets is included in depreciation expense.

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

C. Retirement Commitments

The Library's employees are participants in the Michigan Municipal Employees Retirement System (MERS) through the City of Cadillac. This is an agent multiple-employer defined benefit pension plan administered by the State of Michigan. Separate information on funding status and progress for the Library's employees is not available. Complete pension disclosures for the entire plan can be found in the comprehensive annual financial report of the City of Cadillac. Copies of the report are available at the Cadillac Municipal Complex and the Cadillac-Wexford Public Library.

D. Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The Library participates in two distinct pools of municipalities within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The Library pays annual premiums to each pool for the respective insurance coverage. In the event a pool member's covered loss exceeds the pools limits, all further payments become the sole obligation of the member. The Library has not been notified of any shortfalls in the pools for the current or previous three years.

E. Collections of Works of Art and Historical Treasures

The Library, over the years, has received contributions from patrons for such items as butterfly collections and rare books. The Library considers these items to be of an intangible nature, and is unable to place a cost on the items. Therefore, the items are not shown on these financial statements, and accordingly, no depreciation expense has been recorded on these items.

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)
CADILLAC, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED DECEMBER 31, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES			
Taxes	\$ 586,000	\$ 586,000	\$ 612,976
State Grants	273,200	273,200	291,408
Charges For Services	3,000	3,000	3,965
Fines and Forfeits	11,000	11,000	9,988
Interest and Rents	12,000	12,000	26,102
Other Revenues	7,000	7,000	49,965
Total Revenues	892,200	892,200	994,404
EXPENDITURES			
Culture and Recreation			
Personal Services	528,075	545,625	538,514
Supplies	24,275	24,775	23,069
Other Services and Charges	177,950	176,000	153,365
Capital Outlay	161,900	447,800	419,550
Total Expenditures	892,200	1,194,200	1,134,498
Excess (Deficiency) of Revenues Over Expenditures	0	(302,000)	(140,094)
<u>FUND BALANCE</u> - Beginning of Year	347,108	316,834	513,069
<u>FUND BALANCE</u> - End of Year	\$ 347,108	\$ 14,834	\$ 372,975